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Change the Tax System to Grow the Economy

During his election campaign, Governor-elect Jon Corzine talked about "growing the economy" as a way to alleviate some of the state's chronic budget problems. He reasoned, correctly, that expanded economic activity would increase state tax revenues without government having to raise tax rates or fees. Now that he is about to be sworn in as Governor, NJBIA looks forward to working with Corzine to develop real policies that will get New Jersey's economy moving in the right direction. We think there is no better place to start than with the state's tax structure.

NJBIA has proposed three good ideas to improve the state's tax system in a way that encourages job creation and business investments in New Jersey. They are a moratorium on new business taxes, elimination of the alternative minimum assessment, and enactment of single sales factor for manufacturers as a basis for determining a company's state Corporation Business Tax payments.

Business-Tax-Increase Moratorium. Under the McGreevey Administration, state budgets relied heavily on new or higher business taxes to fuel ever increasing state spending. Often, these tax increases were billed as necessary to balance the budget and were accompanied by rhetoric about corporations "paying their fair share." This has created a hostile business climate. In a 2004 survey, the nation's chief financial officers concluded that New Jersey had the most unfair tax environment of any state in the nation, and an analysis by the accounting firm of Ernst and Young found that New Jersey employers absorbed the third highest overall business tax increase between 2000 and 2003.

Uncertainty in New Jersey's tax structure makes employers leery. Even companies willing to operate in a high-cost state like New Jersey will be unwilling to invest in new facilities and hire more workers if they are not sure how much higher those costs might rise. A moratorium on business tax increases would send a message that New Jersey is serious about improving its business climate. Employers will be much more likely to invest in New Jersey and hire workers here if they know they will not get hit with another round of tax increases.

Let the Alternative Minimum Assessment Expire. The alternative minimum assessment (AMA) was enacted in 2002 as part of the $1 billion Corporation Business Tax (CBT) increase and is set to expire July 1. Lawmakers should let it die. The AMA is not simply a tax increase, but is probably the most anti-growth tax one could impose on business. First, it is designed to tax companies even when they are losing money. Normally, the CBT is imposed on corporate profits. The AMA requires many companies (depending on their size and income) to pay taxes on their gross sales or gross profits, regardless of whether or not there are any profits. What's more, it effectively eliminates tax deductions for legitimate business expenses like the cost of providing health benefits to employees and investments in new equipment. The state should encourage companies to provide health benefits and invest in their places of business, not penalize them for doing so.

Single-Sales-Factor Reform. Currently, the CBT rate for multi-state companies is calculated using a complex formula involving corporate sales, employment and buildings located within the State's borders. As a result, a company that bases its operations and provides jobs in New Jersey pays more in taxes than a company that sets up shop in another state and simply sells its products here. Single-sales-factor reform would change the system so all manufacturers, regardless of where they are located, pay taxes based on their sales. A majority of states have already enacted at least some type of single-sales-factor reform. New Jersey should do the same.

Enactment of these common sense policies will send employers the message that the state is serious about helping companies that want to create jobs and invest in New Jersey. And that is the way you ensure economic growth.